

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Alpena County Road Commission	County Alpena
Audit Date 12/31/04	Opinion Date 4/19/05	Date Accountant Report Submitted to State: 6/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		✓	
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue		City Port Huron	State MI
		ZIP 48060	
Accountant Signature 			Date 6/27/05

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

ANNUAL FINANCIAL STATEMENTS
with
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2004

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements -	
Governmental Fund Balance Sheet/Statement of Net Assets -	7
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities	8
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Budget and Actual	9
Notes to Financial Statements	10
Supplementary Information -	
Detail Schedule of Revenues and Other Sources	22
Detail Schedule of Expenditures	23
Schedule of Revenues, Expenditures and Changes in Fund Balance – By Fund Balance Sub-Accounts	24



INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Alpena County, Michigan, a component unit of Alpena County, as of December 31, 2004 and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Alpena County, Michigan, as of December 31, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 19, 2005, on our consideration of the Road Commission of Alpena County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules on pages 22-24 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Alpena County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beausaint Whipple".

Certified Public Accountants

April 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Alpena County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Alpena County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Alpena County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Alpena County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Alpena County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$29,754,750 at the end of the year. This is an increase of \$962,107 from December 31, 2003.

The net assets are separated into three major components, investment in capital assets which amounted to \$25,347,617 or 85% of net assets, restricted net assets of \$1,934,250 or 7% and finally unrestricted net assets of \$2,472,883 or 8%. The restricted net assets are the net assets that resulted from Primary Road activities and are restricted by the Michigan Department of Transportation to be used on the Primary Roads, and the restriction of Forest Funds. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure). The Road Commission has no related debt used to acquire those assets that is still outstanding. The Road Commission uses the capital assets to provide services to citizens; consequently these assets are not available for future spending. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, restricted and unrestricted net assets).

Because this is the second year of implementation of Governmental Accounting Standards Board No. 34, which requires this new reporting model, the following table presents current year data as well as the prior year data for comparative analysis.

Condensed Statement of Net Assets

	<u>2004</u>	<u>2003</u>
Assets		
Current and other unrestricted assets	\$ 4,699,431	\$ 4,246,576
Capital assets	<u>25,347,617</u>	<u>24,947,293</u>
Total Assets	<u>30,047,048</u>	<u>29,193,869</u>
Liabilities		
Long-term liabilities outstanding	74,059	77,035
Other liabilities	<u>218,239</u>	<u>324,191</u>
Total Liabilities	<u>292,298</u>	<u>401,226</u>
Net Assets:		
Invested in capital assets	25,347,617	24,947,293
Restricted	1,934,250	1,038,631
Unrestricted	<u>2,472,883</u>	<u>2,806,719</u>
Total Net Assets	<u>\$ 29,754,750</u>	<u>\$ 28,792,643</u>

Condensed Statement of Activities

	<u>2004</u>	<u>2003</u>
Revenues		
Intergovernmental -		
Permits	\$ 24,623	\$ 28,334
Federal Sources	427,886	972,071
State Sources	3,514,765	3,333,037
Local Sources	426,801	361,370
Charges for Services	595,098	532,768
Interest and rents	42,507	54,308
Other	<u>156,821</u>	<u>37,172</u>
	<u>5,188,501</u>	<u>5,319,060</u>
Expenses		
Maintenance	2,890,731	2,860,467
Administration	306,572	285,560
Equipment (net)	(496,283)	(567,365)
Depreciation	<u>1,525,374</u>	<u>1,561,127</u>
	<u>4,226,394</u>	<u>4,139,789</u>
Change in Net Assets	<u>\$ 962,107</u>	<u>\$ 1,179,271</u>

Financial Analysis of Governmental Fund Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$4,324,797, an increase of \$500,089 from the prior year. Approximately 55% or \$2,390,547 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. Approximately 45% or \$1,934,250 has been reserved for expenditures related to primary roads and forest funds as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2004 budget to reflect status changes in maintenance and heavy maintenance projects and an increase in capital outlay expenditures. The final budget was \$211,114 greater in revenues than the original budget basically as a result of greater motor vehicle highway funds than originally anticipated. The actual 2004 revenues were \$90,031 more than the amended budget mainly due to more motor vehicle highway funds than anticipated. The final budget was \$784,204 more in expenditures than the original budget as the result of shifting both primary and local heavy and to local and state as well as increasing capital outlay for equipment maintenance. The actual expenditures were \$5,347 more than the amended budget, which is only one-tenth of a percent.

CAPITAL ASSETS

Capital Assets - The Road Commission had \$25,347,617 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new shop equipment and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues.

A summary of capital assets net of accumulated depreciation at December 31, 2004 is as follows:

	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 9,385,402	\$ 9,013,241
Buildings	838,008	609,608
Equipment	830,009	821,505
Infrastructure	<u>14,294,198</u>	<u>14,502,939</u>
Total Capital Assets	<u>\$ 25,347,617</u>	<u>\$ 24,947,293</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are fairly stable. Long-term state fiscal crisis could, however, affect local abilities to provide increased levels of maintenance. Long-term crisis will affect cost sharing programs currently in effect with township transportation partners. The legislative proposal for the 4-cent per gallon diesel tax increase would help to improve resource allocations to maintenance and improvements. This proposal is still anticipating approval.

Our 2005 budget is programmed for revenues which are flat in most areas except for an increase in federal funding for road construction and a decrease in MTF revenues due to a legislative re-allocation and a decrease in license registration fees. Expenditures will increase in areas of road improvement areas, road equipment replacement and building improvements. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity will reduce by \$1,327,000 during 2005.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Alpena County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Alpena County Road Commission, 1400 N. Bagley Street, Alpena, Michigan, 49707.

BASIC FINANCIAL STATEMENTS

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 2,118,488	\$ -	\$ 2,118,488
Investments	1,302,351	-	1,302,351
Due from other governmental units -			
Federal	-		-
State	646,977	-	646,977
Local	3,195	-	3,195
Special assessments receivable	148,731	-	148,731
Accounts receivable	5,546	-	5,546
Accrued interest	-	2,225	2,225
Prepaid expenditures/expenses	-	70,433	70,433
Inventory	401,485	-	401,485
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	9,385,407	9,385,407
Assets being depreciated	-	15,962,210	15,962,210
Total Assets	<u>\$ 4,626,773</u>	<u>\$ 25,420,275</u>	<u>\$ 30,047,048</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 56,924	\$ -	\$ 56,924
Accrued liabilities	20,621	-	20,621
Due to other governmental units	-	-	-
Deferred revenue	83,737	(83,737)	-
Advances and deposits	140,694	-	140,694
Noncurrent liabilities -			
Due in more than one year	-	74,059	74,059
Total Liabilities	<u>301,976</u>	<u>(9,678)</u>	<u>292,298</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Primary roads	1,595,484	(1,595,484)	-
Forest funds	338,766	(338,766)	-
Unreserved -			
Undesignated	2,390,547	(2,390,547)	-
Total Fund Balance	<u>4,324,797</u>	<u>(4,324,797)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,626,773</u>		
Net Assets:			
Invested in capital assets net of related debt		25,347,617	25,347,617
Restricted -			
Primary roads		1,934,250	1,934,250
Unrestricted		2,472,883	2,472,883
Total Net Assets		<u>\$ 29,754,750</u>	<u>\$ 29,754,750</u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 24,623	\$ -	\$ 24,623
Intergovernmental -			
Federal sources	427,886	-	427,886
State sources	3,514,765	-	3,514,765
Local sources	374,857	51,944	426,801
Charges for services	595,098	-	595,098
Interest and rents	42,507	-	42,507
Other	156,821	-	156,821
Total Revenues	<u>5,136,557</u>	<u>51,944</u>	<u>5,188,501</u>
Expenditures/Expenses:			
Current -			
Primary heavy maintenance	819,679	(819,679)	-
Local heavy maintenance	529,450	(529,450)	-
Primary maintenance	1,077,521	(4,485)	1,073,036
Local maintenance	1,243,169	(5,265)	1,237,904
State maintenance	579,791	-	579,791
Administrative - net	319,696	(13,124)	306,572
Equipment	1,100,677	(326,762)	773,915
Less equipment rental charged			
other activities	(1,270,198)	-	(1,270,198)
Depreciation	-	1,525,374	1,525,374
Capital Outlay	576,569	(576,569)	-
Less depreciation credit	(339,886)	339,886	-
Total Expenditures/Expenses	<u>4,636,468</u>	<u>(410,074)</u>	<u>4,226,394</u>
Excess of revenues over (under) expenditures/expenses	500,089	462,018	962,107
Fund Balance/Net Assets at January 1, 2004	<u>3,824,708</u>	<u>24,967,935</u>	<u>28,792,643</u>
Fund Balance/Net Assets at December 31, 2004	<u><u>\$ 4,324,797</u></u>	<u><u>\$ 25,429,953</u></u>	<u><u>\$ 29,754,750</u></u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 20,000	\$ 24,623	\$ 24,623	\$ -
Intergovernmental -				
Federal sources	440,000	449,766	427,886	(21,880)
State sources	3,196,045	3,433,041	3,514,765	81,724
Local sources	625,167	380,550	374,857	(5,693)
Charges for services	444,500	579,672	595,098	15,426
Interest and rents	42,000	73,668	42,507	(31,161)
Other	67,700	105,206	156,821	51,615
	<u>4,835,412</u>	<u>5,046,526</u>	<u>5,136,557</u>	<u>90,031</u>
Expenditures:				
Current -				
Primary heavy maintenance	1,223,988	843,376	819,679	23,697
Local heavy maintenance	1,021,959	532,227	529,450	2,777
Primary maintenance	1,161,609	1,091,230	1,077,521	13,709
Local maintenance	1,194,010	1,244,157	1,243,169	988
State maintenance	443,200	577,199	579,791	(2,592)
Administrative	351,729	308,234	319,696	(11,462)
Equipment - net	(63,900)	(189,319)	(169,521)	(19,798)
Capital Outlay - net	82,730	224,017	236,683	(12,666)
Total Expenditures	<u>5,415,325</u>	<u>4,631,121</u>	<u>4,636,468</u>	<u>(5,347)</u>
Excess of revenues over (under) expenditures	(579,913)	415,405	500,089	84,684
Fund Balance at January 1, 2004	<u>3,824,708</u>	<u>3,824,708</u>	<u>3,824,708</u>	<u>-</u>
Fund Balance at December 31, 2004	<u>\$ 3,244,795</u>	<u>\$ 4,240,113</u>	<u>\$ 4,324,797</u>	<u>\$ 84,684</u>

See Notes to Financial Statements

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Alpena County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's financial statements.

A. Description of Road Commission Operations –

The Alpena County Road Fund, referred to as the Road Commission, is a component unit of the County of Alpena, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to eight (8) Townships in Alpena County and maintains 660 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents – Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Investments represent certificates of deposit with maturity from date of purchase over ninety days and are recorded at cost which approximates fair value.

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the average cost which approximates market.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructure are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

Accrued Vacation Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Deferred Revenues – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Advances From The State of Michigan – The State of Michigan advances funds on a State maintenance agreement it has with the Alpena County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 4,324,797
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	38,884,154
Deduct – accumulated depreciation	(13,536,537)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(74,059)

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont'd):

Prepaid expenses not reported in the governmental fund statements	\$ 70,433
Accrued interest not reported in the governmental fund statements	2,225
Revenues that have been deferred in the governmental fund statements because they are not "available"	<u>83,737</u>
Net Assets	<u>\$ 29,754,750</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues over expenditures - governmental fund statement	\$ 500,089
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	1,925,698
Deduct – depreciation	(1,525,374)
Revenues are deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	52,957
Accrued interest adjustment not reported in the governmental fund statements	(1,013)
Prepaid expense adjustment not reported in the governmental fund statements	6,774
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>2,976</u>
Change in Net Assets	<u>\$ 962,107</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Road Commission Chief Financial Officer prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Chief Finance Officer is authorized to transfer amounts between items of the adopted budget at year end to reflect the effects of the distribution of the distributive account. All other amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission's approved budget was adopted at the expenditure control level by activity. This is the legally-enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring approval by the Board of County Road Commissioners.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended December 31, 2004, the Road Commission had three expenditures over budget as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS:

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Alpena County Treasurer's Office, and in order to make disbursements, the Alpena County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer.

In accordance with Act 20 PA 1943, as amended by Act 196 PA 1997, the County Treasurer is authorized to invest Road Commission surplus funds in the following types of investments:

- a) In bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

Deposits -

As a component unit of the Alpena County, all Road Commission cash is part of the accounts maintained by Alpena County. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004, the carrying amount of the Road Commission's deposits is \$3,420,639, and the bank balance is \$3,497,957. The bank balance is classified by credit risk as follows:

Demand accounts - insured by FDIC	\$ 100,000
Demand accounts - uninsured and uncollateralized	2,095,606
Certificates of deposit - insured by FDIC	100,000
Certificates of deposit - uninsured and uncollateralized	<u>1,202,351</u>
	<u>\$ 3,497,957</u>

The caption cash and cash equivalents on the Balance Sheet also includes \$200 in petty cash.

The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

NOTE 5 - SUBDIVISION STREET PAVING AND IMPROVEMENT PROGRAM:

The amount due on Special Assessments of \$148,731 at December 31, 2004, represents the amount due on four subdivision street paving and improvement programs. The amount of \$49,075 is due from a township at large with the balance of \$99,656 due from property owners.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2004, the Road Commission of Alpena County had less than \$500,000 of applicable federal awards for local force expenditures. As result, an audit for compliance under the Single Audit Act is not required.

The federal revenues of \$427,886 represent the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however, are required to be reported by the Road Commission.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2003	Additions	Deletions	Removals	Balance December 31, 2004
Capital Assets, not being depreciated –					
Land	\$ 23,080	\$ -	\$ -	\$ -	\$ 23,080
Land improvements	8,920,841	372,161	-	-	9,293,002
Right of Ways	<u>69,320</u>	<u>5</u>	-	-	<u>69,325</u>
Total Capital Assets, not being depreciated	<u>9,013,241</u>	<u>372,166</u>	-	-	<u>9,385,407</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,206,266	254,421	-	-	1,460,687
Road Equipment	3,827,990	321,968	220,169	-	3,929,789
Shop Equipment	142,136	-	-	-	142,136
Office Equipment	131,357	180	-	-	131,537
Engineering equipment	57,719	-	-	-	57,719
Yard and storage	204,365	-	-	-	204,365
Infrastructure -					
Roads	19,040,960	956,999	-	535,400	19,462,559
Bridges	3,918,925	19,964	-	-	3,938,889
Traffic signals	24,831	-	-	-	24,831
Depletable assets –					
Gravel pits	<u>146,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,235</u>
	<u>28,700,784</u>	<u>1,553,532</u>	<u>220,169</u>	<u>535,400</u>	<u>29,498,747</u>
Less – accumulated depreciation for –					
Buildings and improvements	596,658	26,021	-	-	622,679
Road Equipment	3,186,474	280,428	220,169	-	3,246,733
Shop Equipment	63,022	9,500	-	-	72,522
Office Equipment	101,527	8,633	-	-	110,160
Engineering Equipment	38,975	4,491	-	-	43,466
Yard and Storage	151,843	10,813	-	-	162,656
Infrastructure –					
Roads	7,200,508	1,103,099	-	535,400	7,768,207
Bridges	1,263,764	80,733	-	-	1,344,497
Traffic signals	17,505	1,656	-	-	19,161
Depletable Assets	<u>146,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,456</u>
	<u>12,766,732</u>	<u>1,525,374</u>	<u>220,169</u>	<u>535,400</u>	<u>13,536,537</u>
Total Capital Assets, being depreciated, net	<u>15,934,052</u>	<u>28,158</u>	-	-	<u>15,962,210</u>
Governmental activity capital assets, net	<u>\$ 24,947,293</u>	<u>\$ 400,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$25,347,617</u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 - GENERAL LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2004:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Accrued vacation	\$ 77,035	\$ -	\$ 2,976	\$ 74,059

Significant details regarding outstanding long-term liabilities are presented below:

Accrued Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated vacation leave under formulas and conditions specified in the contracts. The dollar amounts of these vested rights which have been accrued on the financial statements amounts to approximately \$74,059 at December 31, 2004.

NOTE 9 - EMPLOYEE PENSION PLAN:

Plan Description -

The Alpena County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Road Commission is required to contribute at an actuarially determined rate; the computed employer contribution average rate for 2004 was 11.29%. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 - EMPLOYEE PENSION PLAN – (cont'd):

Annual Pension Costs -

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$144,288 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over the remaining period of 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2002	\$134,298	100%	\$ -
2003	125,731	100	-
2004	144,288	100	-

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>[(b-a)/c]</u>
2001	\$6,787,925	\$7,094,774	\$306,849	96	\$1,241,996	25%
2002	6,810,538	7,441,906	631,368	92	1,327,286	48
2003	7,127,445	7,764,676	637,231	92	1,265,608	50

NOTE 10 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 9, the Alpena County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission between the ages of 60 and 65. At 65 and above, the Road Commission also contributes \$67 towards the cost of Medicare. Expenditures for post-employment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2004 these costs amounted to approximately \$24,748 with 18 eligible participants.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 11 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

The Road Commission participates in a number of agreements with the State of Michigan by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

There are various legal actions pending against the Road Commission. Due to the inconclusive nature of many of the actions, it is not possible to determine the probable outcome or a reasonable estimate of the Road Commission potential liability, if any. The potential liability from legal actions, if any, is considered to be immaterial to the Road Commission.

NOTE 12 - ADVANCES AND DEPOSITS:

Advances of \$140,694 at December 31, 2004, are advanced by the State of Michigan for working capital and equipment purchases under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled. The following is a summary of the balance at December 31, 2004:

State -	
Trunkline maintenance	\$ 40,116
Equipment	<u>100,578</u>
	<u>140,694</u>

NOTE 13 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool. The "Pool" established pursuant to the laws of the State of Michigan authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commission, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Alpena County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13 - RISK MANAGEMENT – (cont'd):

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlement claims for the last three years has not exceeded insurance coverage.

NOTE 14 - EQUIPMENT EXPENDITURE CREDIT BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions, charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure in the various maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The credit balance is the result of the equipment rental charged exceeding actual equipment expenditures for the year ended December 31, 2004 as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 695,122	\$ 414,694
Indirect	260,406	214,072
Operating	<u>145,149</u>	<u>145,149</u>
	1,100,677	773,915
Less-equipment rental	<u>(1,270,198)</u>	<u>(1,270,198)</u>
	<u><u>\$ (169,521)</u></u>	<u><u>\$ (496,283)</u></u>

SUPPLEMENTARY INFORMATION

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

DETAIL SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Permits -	<u>\$ 24,623</u>	<u>\$ 28,334</u>
Federal Sources -		
Federal STP program	427,861	794,224
Federal aid bridge	25	24,092
Federal high priority	-	81,132
FEMA and emergency relief	-	72,623
	<u>427,886</u>	<u>972,071</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	2,232,188	2,057,890
Local roads	1,022,835	980,081
Urban roads	177,776	184,150
Snow removal	26,024	25,323
Economic Development Fund	45,942	71,045
Critical bridge	-	4,548
	<u>3,514,765</u>	<u>3,333,037</u>
Local Sources -		
Township and city contributions	361,152	391,729
County	13,705	-
Private	-	1,540
	<u>374,857</u>	<u>393,269</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	592,725	531,214
Salvage sales	2,373	1,554
	<u>595,098</u>	<u>532,768</u>
Interest and rents	<u>42,507</u>	<u>51,753</u>
Other -		
Land and building sales	-	2,399
Gain on equipment disposal	18,232	-
Special assessments	94,243	31,923
Other	44,346	2,850
	<u>156,821</u>	<u>37,172</u>
Total Revenues	<u><u>\$ 5,136,557</u></u>	<u><u>\$ 5,348,404</u></u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Expenditures:		
Heavy Maintenance -		
Primary roads and structures	\$ 819,679	\$ 1,458,757
Local roads and structures	<u>529,450</u>	<u>504,367</u>
	<u>1,349,129</u>	<u>1,963,124</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	1,077,521	1,161,335
Local roads and structures,		
winter and traffic control	<u>1,243,169</u>	<u>1,197,652</u>
	<u>2,320,690</u>	<u>2,358,987</u>
State Maintenance -		
Trunkline maintenance	537,822	481,514
Trunkline nonmaintenance	<u>41,969</u>	<u>21,966</u>
	<u>579,791</u>	<u>503,480</u>
Equipment -		
Direct	695,122	675,164
Indirect	260,406	286,232
Operating	145,149	123,969
Less - equipment rental	<u>(1,270,198)</u>	<u>(1,260,345)</u>
	<u>(169,521)</u>	<u>(174,980)</u>
Administrative -		
Administration	385,478	352,204
Less - overhead	<u>(62,569)</u>	<u>(48,828)</u>
- purchase discounts	<u>(3,213)</u>	<u>(3,198)</u>
	<u>319,696</u>	<u>300,178</u>
Capital Outlay -		
Equipment	576,569	68,931
Less - depreciation and depletion	<u>(339,886)</u>	<u>(406,939)</u>
	<u>236,683</u>	<u>(338,008)</u>
Total Expenditures	<u><u>\$ 4,636,468</u></u>	<u><u>\$ 4,612,781</u></u>

ALPENA COUNTY ROAD COMMISSION
A Component Unit of Alpena County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Permits -	\$ -	\$ -	\$ 24,623	\$ 24,623
Intergovernmental -				
Federal Sources	427,861	25	-	427,886
State Sources	2,357,323	1,157,442	-	3,514,765
Local Sources	-	374,857	-	374,857
Charges for services	-	-	595,098	595,098
Interest	-	-	42,507	42,507
Other	-	94,243	62,578	156,821
Total Revenues	<u>2,785,184</u>	<u>1,626,567</u>	<u>724,806</u>	<u>5,136,557</u>
Expenditures:				
Heavy Maintenance	819,679	529,450	-	1,349,129
Maintenance	1,077,521	1,243,169	-	2,320,690
State maintenance	-	-	579,791	579,791
Equipment - net	(57,027)	(77,590)	(34,904)	(169,521)
Administrative-net	165,274	154,422	-	319,696
Capital outlay - net	-	-	236,683	236,683
Total Expenditures	<u>2,005,447</u>	<u>1,849,451</u>	<u>781,570</u>	<u>4,636,468</u>
Excess of revenues over (under) expenditures before optional transfers	779,737	(222,884)	(56,764)	500,089
Optional Transfers	<u>(222,884)</u>	<u>222,884</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	556,853	-	(56,764)	500,089
Fund Balance at beginning of year	<u>1,038,631</u>	<u>-</u>	<u>2,786,077</u>	<u>3,824,708</u>
Fund Balance at end of year	<u>\$ 1,595,484</u>	<u>\$ -</u>	<u>\$ 2,729,313</u>	<u>\$ 4,324,797</u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners
of Alpena County
Alpena, Michigan

We have audited the financial statements of Alpena County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon, dated April 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Alpena County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alpena County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioners of Alpena County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beausaint Whipple".

Certified Public Accountants

April 19, 2005